

the "conventional" 271 path only if entry is granted prematurely under that conventional path -- something the RBOCs clearly still are hoping for. 73/

NetCo Misconduct During Transition Period. MCI expresses concerns that NetCo might discourage the use of UNEs during the initial stage of implementation when NetCo would still have retail customers because the provision of UNEs would detract from NetCo's ability to obtain access revenues. 74/ LCI addresses this issue in its Petition. 75/ ServeCo would have the fiduciary obligation to maximize profits for its independent shareholders, and thus could not reasonably adopt a strategy that would keep access revenues associated with ServeCo's local customers with NetCo (as would be the case if ServeCo served its local exchange customers through resale). ServeCo will have strong incentives, moreover, to attract as many local exchange customers as possible, because it can only provide interLATA service to former NetCo customers if it switches those customers to ServeCo local service. Eventually, once OSS has reached parity with the interLATA PIC-change process, states would be free to move the remaining

73/ As discussed above, the Chairman of the New York Public Service Commission and other parties have also been attempting to solve the current stalemate. Leaving aside LCI's legal objections to some of those approaches, the fact remains that they are unproven, and we expect the conflicts of interest within the RBOC to complicate actual progress in these areas.

74/ MCI Comments at 6, 7, 15.

75/ Petition at 33.

NetCo customers to other carriers (including ServeCo) through balloting and allocation. 76/

On the NetCo side, the Fast Track plan would give participating RBOCs an incentive not only to make UNEs available, but also to make them available in the forms necessary for competitors to provide local service. By making ServeCo dependent on NetCo for the same UNEs and OSS needed by competitors, and by requiring that NetCo make UNEs available in both a combined and uncombined form to all parties at the same rates and on the same terms and conditions, the plan would give NetCo both practical and legal incentives to make UNEs available to all.

Moreover, the structural separation and competitive safeguards set forth in the Fast Track plan would greatly enhance the FCC's and the state commissions' abilities to monitor the market, identify UNE discrimination, and take prompt corrective action. 77/ Finally, the statutory unbundled element requirements of Section 251(c)(3) would remain fully applicable to NetCo both during and after implementation of the plan. 78/

Balloting and Customer Confusion. The RBOCs express concerns that the Fast Track plan and its balloting requirement could confuse some

76/ Petition at 22, 27.

77/ Petition at 32-33.

78/ 47 U.S.C. § 251(c)(3).

consumers. 79/ In fact, however, the LCI plan will create less customer confusion, because the RBOC carrier's-carrier arm and its retail arm will no longer go by the same name, and will be fully separated companies. Customers will not confuse the underlying RBOC network provider, upon which *all* competitors rely, with the RBOC retail provider. For example, when the RBOC repair truck pulls up to a customer's house served by a CLEC, the customer will not be confused into thinking that the RBOC, and not the CLEC, is its real local exchange carrier.

More fundamentally, customer confusion is another name for customer choice. It always is less confusing for customers to buy from a monopoly, but fortunately customers will have choices under the 1996 Telecommunications Act -- if it is fully implemented. LCI believes consumers also should be given more credit. Many, if not most, consumers have already experienced the enormous benefits resulting from structural separation and balloting procedures in the long distance context. There is no reason structural separation and balloting in the local context should be any more confusing. 80/

79/ Bell Atlantic Comments at 2, 6; U S West Comments at 4-5, 6; Ameritech Comments at 12, 13-14; BellSouth Comments at 11; SBC Comments at 31.

80/ For the balloting process to be meaningful and effective, however, LCI agrees with MCI (*see* MCI Comments at 29) that balloting should not occur until the relevant state commission determines that the wholesale OSS systems to provision and support network element combinations are capable of processing the same volumes of customer transfers, in the same intervals as the PIC-change systems used to process long distance customer transfers (or at a minimum, until the wholesale OSS systems made available to CLECs are equal in quality to those provided to ServeCo and the RBOC's other affiliates). *See* Petition at 22.

HoldCo's Fiduciary Obligations. The Connecticut DPUC objects to the restrictions on the ServeCo board membership and limitations on the directors' stock ownership, on the ground that the HoldCo board would have difficulty fulfilling its fiduciary obligations if it had no board representation in ServeCo and if ServeCo directors could hold no stock in HoldCo or NetCo. 81/ First, LCI's plan does not preclude some representation by directors appointed to the ServeCo board by HoldCo. The point, rather, is that there must be significant independent board membership as well, to represent the interests of the public shareholders and to ensure that ServeCo operates in its own self-interest, and not in HoldCo's interest.

Restrictions on HoldCo and NetCo stock ownership for all board members is also critical to establishing the proper incentives for ServeCo. Board members must have an undivided duty to maximize the profitability of ServeCo, and must be able to make decisions without fear that those decisions will reduce the stock value of either HoldCo or NetCo. For example, ServeCo must be free to bargain for the best network element rates it can obtain from NetCo, without holding back to artificially prop up those rates. 82/ This is essential to creating the factual predicate for the rebuttable presumption of compliance with Section 271.

81/ Connecticut DPUC Comments at 6-7.

82/ The Connecticut DPUC also protests that the plan would require ServeCo to pay for the plant and facilities it acquires, leave ServeCo without "an established track record" in the marketplace, and expose ServeCo to greater risk than would be faced by the ILEC. Connecticut DPUC Comments at 6. Stated another way, ServeCo would bear the same costs, marketing requirements, and risks that other CLECs must bear. In LCI's view, such an outcome is precisely what the Fast Track plan, and any other truly pro-competitive model, must be designed to achieve.

Sunset. Some commenters argue that the plan should have a more definitive sunset provision. 83/ But a definitive sunset provision would defeat the plan's incentive system. If the plan were allowed to sunset before competition existed on both the wholesale and retail levels, re-integration of the affiliates would lead only to renewed RBOC abuses. As with price cap regulation, 84/ if a carrier could opt out at its option or on a predetermined date, the carrier would have little motivation to fully implement the plan's reforms. While the potential for an RBOC eventually to reintegrate (or to start a retail business of its own) is an important part of LCI's plan, the timing of such reintegration must depend on the factual circumstances in existence at a future point when both retail competition exists and wholesale competition has developed to the extent that CLECs are no longer dependent on the RBOC wireline network. 85/

Analogy to Restructuring of Electric Utilities. A few commenters question the analogy between restructuring in the electric utility industry and restructuring in the local telephone exchange industry that was made in the petition. LCI's point was not that the two industries are identical, or that the identical structural approach is appropriate for both. Rather, LCI's point is that many states are exploring structural approaches to deal with similar competitive

83/ SBC Comments at 33.

84/ *Policy and Rules Concerning Rates for Dominant Carriers*, 5 FCC Rcd 6786, 6819-20 (1990), *aff'd sub nom. National Rural Telecom Ass'n v. FCC*, 988 F.2d 174 (D.C. Cir. 1993) (prohibiting LECs from opting out of price caps).

85/ See Petition at 23-24.

issues in the electric utility industry, and that the FCC and state commissions should do the same.

The similarities between the industries are telling, moreover. One commenter argues that the electric utility industry differs from the local exchange telephone industry because a consumer may purchase electricity from any provider in the country, while a consumer may purchase telephone service only from providers serving specific geographic locations. ^{86/} However, both electricity and telephone service must ultimately flow to and/or from a consumer's home through wires owned by an incumbent provider with a historic monopoly franchise.

As in the electric utility industry, an incumbent that both owns essential facilities and competes as a retail provider will have an inherent conflict of interest, and thus both an incentive and ability to block the development of competition, unless that conflict of interest is addressed through a restructuring such as that proposed for electric utilities and the comparable approach proposed in the Fast Track plan. Distinctions between electric industry and telephony are less important than this essential similarity.

E. The Fast Track Plan Is Superior To Alternative Approaches Suggested by Commenters.

Commenters in this proceeding have suggested a number of alternatives to the Fast Track plan. Some of these alternatives would do nothing to address the RBOCs' wholesale/retail conflict of interest. Others constitute positive

^{86/} New Jersey Division of the Ratepayer Advocate Comments at 7-8.

contributions to the debate. None, however, surpass the Fast Track plan in providing a realistic, voluntary means of effectively addressing the RBOCs' inherent conflict of interest.

1. Alternatives That Fail to Address the RBOCs' Wholesale/Retail Conflict of Interest Would Harm the Development of Local Competition.

The models adopted by Southern New England Telephone Co. ("SNET") and Rochester Telephone Co., and alternatives proposed at the state level by the RBOCs, generally are designed to liberate the ILECs' retail operations from statutory and regulatory obligations while retaining full integration of the ILEC's retail and wholesale operations. The New York and Connecticut commissions are to be commended for their pioneering work to explore use of structural separation to advance local competition. Particularly in the context of the RBOCs, however, these models do not adequately address the incentives and ability of the parent holding company to compel discriminatory conduct on the part of the wholesale and retail affiliates.

The SNET model, for example, provides a useful starting point, but it also contains a major deficiency. It does not ensure that the ILEC's CLEC affiliate will act independently of the ILEC holding company. Unlike the Fast Track plan, the SNET model introduces no elements of independence into the retail affiliate and thus provides little protection against discrimination and cross-subsidization by the wholesale and retail affiliates. The SNET model requires no public, or even outside,

ownership of the retail affiliate and no separate stock for the retail affiliate. 87/ It imposes no requirement that the directors of the retail affiliates be independent of the parent ILEC or the network company; 88/ places no restrictions on the ability of the retail affiliate's employees, officers, and directors to own stock in the ILEC holding company; 89/ and allows the retail affiliate's employees, officers, and directors to be compensated based on the ILEC's overall performance, not simply the performance of the retail affiliate. 90/ The SNET model also allows the ILEC holding company to jointly provide both affiliates with extensive administrative and coordinated planning functions, and allows sharing of the ILEC brand name by both the wholesale and retail affiliates without payment of compensation for the use of this corporate goodwill. 91/

The Rochester Telephone model also fails to address ILEC conflicts of interest adequately. Like the SNET model, it establishes no public ownership or other indicia of independence in the retail affiliate; it allows the compensation of

87/ See *DPUC Investigation of the Southern New England Telephone Co. Affiliate Matters Associated with the Implementation of Public Act 94-83*, Decision, Docket No. 94-10-05 (Conn. Dept. of Pub. Util. Control June 25, 1997), at 45-46 ("*SNET Affiliate Initial Decision*"), modified by Decisions (dated Sept. 10, 1997; Oct. 8, 1997; Dec. 22, 1997).

88/ See *id.* at 43 (although the SNET model requires the retail affiliates to have "separate" directors from those of the Telco, it does not require that the directors be independent of the holding company or wholesale affiliate).

89/ See *id.* at 38-76.

90/ *Id.*

91/ *SNET Affiliate Initial Decision* at 59-60.

the retail affiliate's officers, directors, and employees to be based on the parent company's overall financial performance; it does not require the retail base of the network company ever to be competed or balloted away; and it allows holding company provision of administrative and management functions to both the retail and whole affiliates. 92/

The ILEC in-region "CLEC," full-service affiliate models, such as BellSouth's "BellSouth BSE" affiliate, are even worse. 93/ Such entities, established as alter-egos that as a practical matter will be indistinguishable from the parent ILECs, seek to be treated as lightly-regulated "CLECs" while retaining all the advantages of an ILEC. For example, BellSouth BSE is wholly owned by the RBOC holding company, 94/ and intends to be capitalized and funded entirely by

92/ *Petition of Rochester Telephone Corp. for Approval of Proposed Restructuring Plan, Opinion and Order Approving Joint Stipulation and Agreement*, Case Nos. 93-C-0103, 93-C-0033, Opinion No. 94-25 (NY Pub. Serv. Comm'n Nov. 10, 1994); at 11-16.

93/ See Competitive Telecommunications Association, Florida Competitive Carriers Association, and Southeastern Competitive Carriers Association, *Petition for Declaratory Ruling or, In the Alternative, For Rulemaking on Defining Certain Incumbent LEC Affiliates As Successors, Assigns, or Comparable Carriers Under Section 251(h) of the Communications Act*, CC Docket No. 98-39 (filed Mar. 23, 1998).

94/ Alabama Public Service Commission, *In re BellSouth, BSE, Inc.*, Docket No. 26192, Hearing (Nov. 19, 1997) ("AL PSC Hearing"), Cross Examination of Robert C. Scheye, Vice President, Supplier Development and Business Relations for BellSouth BSE, Inc. at Tr. 40; South Carolina Public Service Commission, *In re Application of BellSouth BSE, Inc. for a Certificate of Public Convenience and Necessity to Provide Local Exchange Telecommunications Service in the State of South Carolina*, Docket No. 97-361-C, Hearing No. 9703 ("SC PSC Hearing No. 9703"), Cross Examination of Scheye at Tr. 45.

BellSouth's parent holding company; have access to the same capital and borrowing power as the RBOC (secured in substantial part by the RBOC's assets and expected future earnings); 95/ use, free of charge, the RBOC's name, logo, and other indicia of corporate identity; 96/ and employ former BellSouth personnel, including high-level staff members previously responsible for negotiating interconnection agreements with unaffiliated CLECs. 97/ In essence, the formation of an RBOC-affiliated in-region "CLEC" would constitute a mere technical change in the structure and identify of the original RBOC. It does nothing to combat the RBOC's incentives to discriminate against competitors; if anything, it may worsen the situation by enabling the RBOC to shield certain facilities or services from access by competitors by housing them through a so-called CLEC affiliate that is not subject to Sections 251(c)(3) and 251(c)(4).

B. Alternatives Suggested by RBOC Competitors Constitute Positive Contributions to the Debate, But Do Not Present Reasons to Defer the Declaratory Rulings Requested Here.

As noted above, many commenters agree that the inherent conflict of interest posed by the RBOCs' current corporate structure is at the root of the

95/ SC PSC Hearing No. 9703, Direct Testimony of Scheye at Tr. 12, Cross Examination of Scheye at Tr. 57-58; AL PSC Hearing, Direct Examination of Scheye at Tr. 16; *see also* SC PSC Order at Tr. 5.

96/ SC PSC Hearing No. 9703, Cross Examination of Scheye at Tr. 16-17, 24-25, 76-77; AL PSC Hearing, Cross Examination of Scheye at Tr. 86-92.

97/ SC PSC Hearing No. 9703, Cross Examination of Scheye at Tr. 42-43; AL PSC Hearing, Cross Examination of Scheye at Tr. 32, 55-57.

problems in development of local exchange competition. Some of these commenters propose somewhat different models for restructuring the RBOC operations to address these conflicts. Some argue that full divestiture of retail operations is called for. While none of these alternatives is superior to the Fast Track plan in providing a realistic, *voluntary* means of effectively addressing the RBOCs' inherent conflict of interest, LCI welcomes them as generally positive contributions to the debate.

Some commenters argue that the objectives of the Fast Track plan would be better served by a complete divestiture of the RBOCs' retail and wholesale operations, or by a greater than 40 percent spin-off of the retail affiliate. ^{98/} LCI also would prefer such a structure. The goal of LCI's proposal, however, was to create favorable conditions for competition for consumers *quickly*, and to break the current impasse by providing RBOCs with a voluntary, alternative path to interLATA entry and a deregulated environment for their retail operations. A plan requiring complete divestiture or spin-offs of more than 40 percent would predictably encounter substantial resistance from the RBOCs. The 40 percent divestiture requirement of the voluntary Fast Track plan, while not perfect, will ensure a level of independence in the retail affiliate sufficient to largely insulate the retail affiliate from pressure from the RBOC parent. It also will help neutralize the retail affiliate's incentive and ability to cross-subsidize and collude with the

^{98/} MCI Comments at 4, 8-9, 16-17; WorldCom Comments at 1, 3; CPI Comments at 8, 10, 11; State Advocates Comments at 3; Fibernet Telecom Comments at 4; RCN/Cleartel Comments at 9-11.

wholesale affiliate in discriminating against competitors. The structure also will make it more apparent when the RBOC does favor its own retail operations over those of its competitors. Nothing in the adoption of the voluntary alternative by the Commission, moreover, forecloses a different or more strict mandatory approach later.

Other commenters argue that a wholesale/retail model somewhat different than the LCI proposal is appropriate. The principal alternative suggested by certain competitors is the "LoopCo" model, which would require RBOCs to structurally separate, and possibly divest their ownership of, only the local loops and not other network facilities. ^{99/} The problem with this alternative is that it assumes that local loops will be the *only* network element that cannot be provided on a competitive basis and thus that the loop is the only source of the RBOCs' monopolistic incentives and abilities. In the near- to medium-term future, at least, if not longer, the RBOCs will retain their dominance over both loop and non-loop elements of the local wireline network, such as local and tandem switches and operations support systems. Competitors that do not own the other network elements (such as switches) will still be subject to RBOC discrimination under a LoopCo alternative. Even competitors with some switches of their own may not be able to economically provide service over a wide geographic area without employing

^{99/} See, e.g., MCI Comments at 17-19; WorldCom Comments, Exh. A at 4-9; Level 3 Comments at 15-16; Fibernet Comments at 6; RCN/Cleartel/KMC Comments at 14-15; "LoopCo" Comments, *passim*. Some of these commenters characterize this as an "Independent System Operator" concept, comparable to Bell Atlantic's Empire City Subway subsidiary in New York City.

RBOC switches. To preserve the potential for competitive choice for all consumers, large and small, rural and urban, it is essential to include all the elements of the local exchange in NetCo. The Fast Track plan thus more comprehensively addresses the RBOCs' anticompetitive incentives and holds the promise for a more broadly competitive market.

Some commenters suggest more minor modifications to the plan or addition of further safeguards. For example, some suggest that the outside ownership requirement should apply to NetCo as well as, or instead of, ServeCo. 100/ The Fast Track plan focuses the divestiture requirement on ServeCo because it is only through the retail affiliate that the RBOC parent would be able to effectuate a price squeeze, in which ServeCo's retail prices would be less than NetCo's rates for network elements. By requiring a percentage of public ownership in ServeCo, the Fast Track plan imposes a fiduciary duty on the part of ServeCo's board to generate a profit, thus precluding such below-cost pricing. LCI would not be opposed, however, to further consideration of requiring public ownership in NetCo, or other measures to increase the separation between the ownership of NetCo and ServeCo.

Similarly, LCI does not oppose consideration of other modifications and/or the inclusion of additional safeguards. Suggestions made by commenters in this regard include vesting control of ServeCo and NetCo in independent directors

100/ AT&T Comments at 10; Level 3 Communications Comments at 9; Fibernet Telecom at 4.

rather than in persons controlled by HoldCo, 101/ prohibiting public shareholders of ServeCo from directly or indirectly holding shares in the RBOC parent or in NetCo, requiring the RBOC to notify and obtain FCC approval prior to transferring or assigning one percent or more of ServeCo shares to entities who own or control the RBOC parent's stock or NetCo's stock, 102/ and imposing reporting requirements on NetCo and ServeCo. 103/

Even if not incorporated into the plan, LCI welcomes further discussion of these suggestions as important contributions to what LCI hopes will be a continuing debate. That said, the Fast Track proposal is intended to open an expedited process, and we are hopeful that this proceeding can be concluded quickly. Issuance of the declaratory rulings requested here in no way prevents continued debate over other approaches as this difficult transition from monopoly to competition develops.

101/ AT&T Comments at 10; see also RCN Telecom Services and Cleartel Communications at 9-11; Fibernet Telecom Comments at 4..

102/ Cable & Wireless Comments at 7-8.

103/ RCN Telecom and Cleartel Communications Comments at 9.

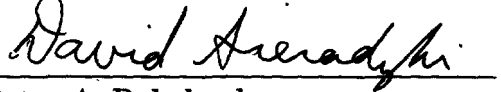
CONCLUSION

For the reasons stated above, as well as in LCI's petition and initial comments, LCI urges the Commission to adopt the requested declaratory rulings and open the way for rapid implementation of the Fast Track plan.

Respectfully submitted,

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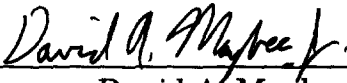
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Dated: April 22, 1998

CERTIFICATE OF SERVICE

I, David A. Maybee, Jr., hereby certify that on this 22nd day of April, 1998, a copy of the Reply Comments of LCI International Telecom Corp. was hand delivered to the parties listed below.



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NOI - Structural Separation of Ameritech Illinois

Date: April 15, 1998

To: All Interested Parties

From: Patrick E. McLarney

Manager - Telecommunications Division



NOI Manager - 98 NOI-1

RE: Notice of Inquiry Regarding the Structural Separation of Ameritech Illinois 98 NOI-1

On February 18, 1998, the Commission adopted a resolution determining that a Notice of Inquiry ("NOI") should be initiated to address the underlying issues in the LCI proposal. Ameritech Illinois is the only BOC in Illinois. The resolution stated that the inquiry would gather information regarding whether, and the extent to which, a separation of Ameritech Illinois' retail operation from its network operations could expedite competitive entry in all telecommunications markets and, if so, what types of separations should be considered.

With this letter please find a copy of the Commission's NOI in the above referenced matter. The NOI is available on the ICC Website. Initial comments are due May 15, 1998 and reply comments are due June 12, 1998. Oral presentations to the Commission have been scheduled for July 17, 1998 in Chicago and July 24, 1998 in Springfield. The exact time and location for the oral presentations will be announced at a later date.

Should you have any questions or comments regarding this matter, please feel free to contact the Telecommunications Division office at (217) 524-5060. Stacy Buecker at 217-524-4228 is the NOI Assistant Manager.

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STATE OF ILLINOIS

**ILLINOIS COMMERCE COMMISSION
98-NOI-1**

**NOTICE OF INQUIRY CONCERNING
THE STRUCTURAL SEPARATION OF AMERITECH ILLINOIS
April 15, 1998**

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NOTICE OF INQUIRY

This Notice of Inquiry ("NOI") is not a rulemaking and is non-decisional in character. The proceeding cannot, by itself, lead to an action enforceable by the Illinois Commerce Commission ("Commission") (2 Ill. Adm. Code 1700.310(d)). However, the Commission may use information gathered during this NOI proceeding to develop the scope of an evidentiary proceeding to be undertaken to determine whether, and the extent to which, a separation of Ameritech Illinois' retail operation from its network operations could expedite competitive entry in all telecommunications markets and, if so, what types of separations should be considered.

I. INTRODUCTION

The expressly-stated policy of the Communications Act of 1934 ("Federal Act"), as amended by the Telecommunications Act of 1996 (P.L.104-104) and the Public Utilities Act is that all telecommunications markets should be opened to competition. Under Federal law, Ameritech Illinois could be authorized to provide in-region interLATA service by the Federal Communications Commission ("FCC") upon application to the FCC and a demonstration that Ameritech Illinois has opened its local markets to competition by meeting the requirements set forth in Section 271 of the Federal Act.

On January 22 1998, LCI International Telecom Corporation ("LCI") filed with the FCC a petition requesting the FCC to explore whether a structural separation arrangement for a Bell Operating Company's ("BOC") retail operations and network operations could reduce or eliminate the inherent conflicts of interest LCI claims underlie the current barriers to local competitive entry, especially in residential local markets. Such separation could also expedite a BOC's ability to provision in-region interLATA services.

On February 18, 1998, the Commission adopted a resolution determining that an NOI should be initiated to address the underlying issues in the LCI proposal. Ameritech Illinois is the only BOC in Illinois. The resolution stated that the inquiry would gather information regarding whether, and the extent to which, a separation of Ameritech Illinois' retail operation from its network operations could expedite competitive entry in all telecommunications markets and, if so, what types of separations should be considered.

It is with these objectives in mind that the Commission now seeks comment from interested parties on structural separation issues. The Commission has identified a preliminary list of issues which follows; however, commenters are free to raise and discuss additional issues relevant to this inquiry.

II. ISSUES TO BE ADDRESSED

A. *Empirical Data and Real World Examples*

The purpose of this section is to seek comment on whether, and the extent to which, the separation of a firm into a technology based wholesale supplier and a retail entity has expedited competitive entry into the market segments of existing industries. This technology based wholesale supplier may or may not simultaneously provide retail services.

(1) Please provide examples of an existing industry, where a variety of large and small retail entities buy from a dominant technology based wholesale supplier, in which structural separation has been effective in promoting competition.

(2) Please explain whether, and the extent to which, regulation and legislation have directly contributed to the structural separation of the industry(ies) cited in your response to question (1).

(3) Please explain how, and the extent to which, regulation and legislation have directly contributed to the combined success of the industry(ies) cited in your response to question (1).

(4) Further, please explain the extent to which structural separation has been effective in:

- (a) Sustaining competition in the markets of this industry,
- (b) Improving the quality of services in those markets,
- (c) Contributing to the financial success of competing retailers,
- (d) Contributing to the financial success of competing technology based wholesale suppliers,
- (e) Contributing to the financial success of competitors that offer both retail and technology based wholesale services, cited in your response to question (1).

B. *Separation to Maximize Results*

The purpose of this section is to seek comment on the legal basis, if any, upon which the Commission could require Ameritech Illinois to structurally separate its telecommunications operation into a network entity and a retail entity. This section also seeks comment on alternative structural separation approaches that could be considered for Ameritech Illinois.

(1) Please provide the legal basis, if any, upon which the Commission could require Ameritech Illinois to structurally separate into a network entity and a retail entity.

- (2) To the extent you believe the structural separation of Ameritech Illinois is desirable, please explain whether, and the extent to which, a successful separation of Ameritech Illinois can expedite competitive entry into the markets of the telecommunications industry.
- (3) To the extent you believe the structural separation of Ameritech Illinois is desirable, please describe whether, and the extent to which, competitive entry into all telecommunications markets will be expedited through a successful separation of Ameritech Illinois, as compared with a successful Section 271 application by the Company.
- (4) Please discuss whether the structural separation of Ameritech Illinois will have an impact on the structure of the markets within the telecommunications industry. Specifically, please explain whether structural separation will lead to competitive entry in all telecommunications markets that is more or less diverse in character.
- (5) If the paramount objectives of each of the following company executives were the sole consideration in deciding the method of Ameritech Illinois' separation, please explain how the separation would be structured:
 - (a) The Consumer Affairs Vice President
 - (b) The Finance Vice President
 - (c) The Marketing Vice President
 - (d) The Network Vice President
 - (e) The Operations Vice President
 - (f) The Regulatory Affairs Vice President
 - (g) The Legal Department Vice President

Please provide the rationale for your responses to question (5), using actual examples to support the answer where possible.

- (6) Please provide your recommendation(s), if any, for the most appropriate method to structurally separate Ameritech Illinois' operations so as to expedite competitive entry into all markets of the telecommunications industry. Please provide the rationale for your response, using actual examples to support the answer where possible.

C. Areas of Inquiry

The purpose of this section is to seek comment regarding the impact of the structural separation of Ameritech Illinois on telecommunications consumers, emergency services, network reliability and development and the obligations currently imposed on the Company by federal and state rules and regulations. This section also seeks comment on various financial issues related to the structural separation of Ameritech Illinois.